Announcements

Statement by Chairman Alan Greenspan on Nomination for Fifth Term

"I am honored to be nominated by President Bush and, if confirmed by the Senate, to continue my service as Chairman of the Board of Governors of the Federal Reserve System."

Chairman Greenspan Takes Oath of Office

Chairman Alan Greenspan on June 19, 2004, took the oath of office as Chairman of the Board of Governors of the Federal Reserve System for a fifth four-year term commencing on June 20, 2004. The oath was administered by Vice President Dick Cheney at the Colorado home of former President Gerald Ford. Witnesses included President and Mrs. Ford and Chairman Greenspan's wife, Andrea Mitchell.

President Bush nominated Dr. Greenspan on May 18, 2004, and he was confirmed by the Senate on June 17, 2004. He originally took office on August 11, 1987.

Federal Open Market Committee Statements

The Federal Open Market Committee decided on May 4, 2004, to keep its target for the federal funds rate at 1 percent.

The Committee continues to believe that an accommodative stance of monetary policy, coupled with robust underlying growth in productivity, is providing important ongoing support to economic activity. The evidence accumulated over the intermeeting period indicates that output is continuing to expand at a solid rate and hiring appears to have picked up. Although incoming inflation data have moved somewhat higher, long-term inflation expectations appear to have remained well contained.

The Committee perceives the upside and downside risks to the attainment of sustainable growth for the next few quarters are roughly equal. Similarly, the risks to the goal of price stability have moved into balance. At this juncture, with inflation low and resource use slack, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured.

Voting for the FOMC monetary policy action were: Alan Greenspan, Chairman; Timothy F. Geithner, Vice Chairman; Ben S. Bernanke; Susan S. Bies; Roger W. Ferguson, Jr.; Edward M. Gramlich; Thomas M. Hoenig; Donald L. Kohn; Cathy E. Minehan; Mark W. Olson; Sandra Pianalto; and William Poole.

The Federal Open Market Committee decided on June 30, 2004, to raise its target for the federal funds rate 25 basis points to 1¼ percent.

The Committee believes that, even after this action, the stance of monetary policy remains accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity. The evidence accumulated over the intermeeting period indicates that output is continuing to expand at a solid pace and labor market conditions have improved. Although incoming inflation data are somewhat elevated, a portion of the increase in recent months appears to have been due to transitory factors.

The Committee perceives the upside and downside risks to the attainment of both sustainable growth and price stability for the next few quarters are roughly equal. With underlying inflation still expected to be relatively low, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.

Voting for the FOMC monetary policy action were: Alan Greenspan, Chairman; Timothy F. Geithner, Vice Chairman; Ben S. Bernanke; Susan S. Bies; Roger W. Ferguson, Jr.; Edward M. Gramlich; Thomas M. Hoenig; Donald L. Kohn; Cathy E. Minehan; Mark W. Olson; Sandra Pianalto; and William Poole.

In a related action, the Board of Governors approved a 25 basis point increase in the discount rate to 2¼ percent. In taking this action, the Board approved the requests submitted by the Boards of Directors of the Federal Reserve Banks of Boston,

New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco.

Proposed Amendment to Regulation J

The Federal Reserve Board on June 4, 2004, proposed amending Regulation J, (Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers through Fedwire), which governs Reserve Banks' collection of checks and other cash items, to cover the entire range of check-processing services that the Reserve Banks plan to offer once the Check Clearing for the 21st Century Act takes effect on October 28, 2004.

The Check 21 Act permits banks to use substitute checks in place of original checks in the check collection or return process. The act does not require any bank to accept checks electronically, but facilitates the use of electronic transmission between banks that agree to use that technology. In light of the act's provisions, the Reserve Banks plan to offer a wider range of electronic check-processing services. The proposed amendments would bring electronic items within the scope of Regulation J and would establish new warranties and an indemnity that would apply to electronic items for which there is no other warranty and indemnity protection.

Amendments to Regulation V

The Federal Reserve Board on June 8, 2004, issued amendments to Regulation V (Fair Credit Reporting), which implements the Fair Credit Reporting Act (FCRA), that would add model notices for financial institutions to use if they furnish negative information to consumer reporting agencies. The amendments also provide guidance to financial institutions regarding the use of the model notices. The Board is publishing the model notices pursuant to the Fair and Accurate Credit Transactions Act (FACT Act) amendments to the FCRA.

The FACT Act provides that if any financial institution (1) extends credit and regularly and in the ordinary course of business furnishes information to a nationwide consumer reporting agency; and (2) furnishes negative information to such an agency regarding credit extended to a customer, the institution must provide a clear and conspicuous notice about furnishing negative information, in writing, to the customer. *Negative information* means information concerning a customer's delinquencies, late payments, insolvency, or any form of default.

The FACT Act defines the term *financial institution* to have the same meaning as in the privacy provisions of the Gramm–Leach–Bliley Act. The term *financial institution* includes not only institutions regulated by the Board and other federal banking agencies, but also includes other financial entities, such as merchant creditors that extend credit and report negative information. The Board's model notices can be used by all financial institutions, as defined by the act.

The amendments became effective July 16, 2004.

Amendments to Regulation CC, Appendix A

Restructuring of Check-Processing Operations in the Eleventh, Seventh, Eighth, Fourth, and Fifth Districts

The Federal Reserve Board on May 4, 2004, announced amendments to Appendix A of Regulation CC (Availability of Funds and Collection of Checks), effective July 10, 2004, that reflect the restructuring of the Federal Reserve's check-processing operations in the Eleventh District.

On May 17, 2004, the Federal Reserve Board announced amendments to Appendix A of Regulation CC, that reflect the restructuring of the Federal Reserve's check-processing operations in the Seventh and Eighth Districts.

On June 22, 2004, the Federal Reserve Board announced amendments to Appendix A of Regulation CC, that reflect the restructuring of the Federal Reserve's check-processing operations in the Fourth, Fifth, and Eighth Districts.

These amendments are part of a series of amendments to appendix A that will take place through the end of 2004, associated with the previously announced restructuring of the Reserve Banks' check-processing operations.

Appendix A provides a routing number guide that helps depository institutions determine the maximum permissible hold periods for most deposited checks. As of July 10, 2004, the San Antonio office of the Federal Reserve Bank of Dallas no longer processes checks, and banks served by that office for check-processing purposes were reassigned to the Reserve Bank's head office in Dallas. To reflect this operational change, the final rule deletes the reference in appendix A to the San Antonio office and reassigns the routing numbers listed thereunder to the Reserve Bank's head office.

As of July 24, 2004, the Little Rock office of the Federal Reserve Bank of St. Louis no longer processes checks, and banks served by that office for check-processing purposes have been reassigned to the Reserve Bank's Memphis office.

As of August 7, 2004, the Milwaukee office of the Federal Reserve Bank of Chicago no longer processes checks, and banks served by that office have been reassigned to the Reserve Bank's head office. To reflect these operational changes, the final rule (1) deletes the reference in appendix A to the St. Louis Reserve Bank's Little Rock office and reassigns the routing numbers listed thereunder to the Reserve Bank's Memphis office, effective July 24, 2004, and (2) deletes the reference in appendix A to the Chicago Reserve Bank's Milwaukee office and reassigns the routing numbers listed thereunder to the Reserve Bank's head office, effective August 7, 2004.

As of August 28, 2004, the Columbia office of the Federal Reserve Bank of Richmond no longer processes checks, and banks served by that office have been reassigned to that Reserve Bank's Charlotte office.

Also as of August 28, 2004, the Louisville office of the Federal Reserve Bank of St. Louis no longer processes checks, and banks served by that office for check-processing purposes have been reassigned to the Cincinnati office of the Federal Reserve Bank of Cleveland.

To reflect these operational changes, the final rule (1) deletes the reference in appendix A to the Richmond Reserve Bank's Columbia office and reassigns the routing numbers listed thereunder to that Reserve Bank's Charlotte office, and (2) deletes the reference in appendix A to the St. Louis Reserve Bank's Louisville office and reassigns the routing numbers listed thereunder to the Cleveland Reserve Bank's Cincinnati office. To coincide with the effective date of the underlying check-processing changes, the amendments were effective August 28, 2004.

As a result of these changes, some checks deposited in the affected regions that were nonlocal checks have become local checks that are subject to shorter permissible hold periods.

Final Amendments to Regulation CC and its Commentary to Implement Check 21 Act

The Federal Reserve Board on July 26, 2004, released final amendments to Regulation CC and its commentary to implement the Check Clearing for the 21st Century Act (Check 21 Act), which was enacted on October 28, 2003, and becomes effective on October 28, 2004.

To facilitate check truncation and electronic check exchange, the Check 21 Act authorizes a new negotiable instrument called a *substitute check*. A substitute check is a paper reproduction of the original check that contains an image of the front and back of the original check and can be processed just like the original check. The Check 21 Act provides that a properly prepared substitute check is the legal equivalent of the original check for all purposes. The Check 21 Act does not require any bank to create substitute checks or to accept checks electronically. The Check 21 Act includes new warranties, an indemnity, and expedited re-credit procedures that protect substitute check recipients.

The Board's amendments: (1) set forth the requirements of the Check 21 Act that apply to banks; (2) provide a model disclosure and model notices relating to substitute checks; and (3) set forth bank endorsement and identification requirements for substitute checks. The amendments also clarify some existing provisions of the rule and commentary.

Proposed Amendments Published to Regulation DD

The Federal Reserve Board on May 28, 2004, published proposed amendments to Regulation DD (Truth in Savings), which implements the Truth in Savings Act, and the regulation's official staff commentary to address concerns about the uniformity and adequacy of information provided to consumers when they overdraw their accounts. The proposed amendments, in part, address a specific service offered by depository institutions, commonly referred to as *bounced-check protection* or *courtesy overdraft protection*.

Depository institutions sometimes offer courtesy overdraft protection to deposit account customers as an alternative to a traditional overdraft line of credit. To address concerns about the marketing of this service, a proposed revision to the regulation would expand the prohibition against misleading advertisements to cover communications with current customers about existing accounts. The staff commentary would provide examples. Other proposed revisions to Regulation DD would require additional fee and other disclosures about courtesy overdraft services, including in advertisements.

The Board is also proposing amendments of general applicability that would require institutions to provide more uniform disclosures about overdraft and returned-item fees.

In addition, the member agencies of the Federal Financial Institutions Examination Council published proposed guidance to assist insured depository institutions in the responsible disclosure and administration of overdraft protection services.

Withdrawal of Proposed Revisions to Regulations B, E, M, Z, and DD

The Federal Reserve Board on June 22, 2004, withdrew proposed revisions to Regulation B (Equal Credit Opportunity), Regulation E (Electronic Fund Transfers), Regulation M (Consumer Leasing), Regulation Z (Truth in Lending), and Regulation DD (Truth in Savings). The proposed revisions, published in December 2003, sought to define more specifically the standard for providing *clear and conspicuous* disclosures and to provide a more-uniform standard among the Board's regulations.

The revisions were intended to help ensure that consumers receive noticeable and understandable information that is required by law in connection with obtaining consumer financial products and services. In response to concerns raised by commenters, the Board has determined that this goal should be achieved by developing proposals that focus on improving the effectiveness of individual disclosures rather than the adoption of general definitions and standards applicable across the five regulations. This effort will be undertaken in connection with the Board's periodic review of its regulations; an advance notice of proposed rulemaking is expected to be issued later this year under Regulation Z, focused on disclosures for open-end credit accounts.

Although the December 2003 proposals are withdrawn, they reflect principles that institutions may find useful in creating disclosures that are clear and conspicuous. These approaches will also help inform the Board's review of individual disclosures.

Intent to Withdraw Proposed Amendments to Community Reinvestment Act Regulations

The Federal Reserve Board on July 16, 2004, announced its intention to withdraw proposed amendments to its Community Reinvestment Act (CRA) regulations Regulation BB, Community Reinvestment).

In February 2004, the Board, along with the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the Federal Deposit Insurance Corporation, proposed revisions to the agencies' CRA regulations. The key aspects of the proposal were: (1) to raise the small-bank asset threshold from $250 million to $500 million thereby allowing more banks to benefit from streamlined CRA evaluations; and (2) to allow examiners to reduce a depository institution's CRA rating if the institution engaged in a pattern or practice of abusive asset-based lending.

Although community banks strongly favor raising the threshold, it is uncertain that the cost savings to the average community bank of being "small" rather than "large" under the proposal would be significant. On the other side, the proposal's cost in the form of a potential reduction in community development capital in a significant number of rural communities is also uncertain, but potentially large in at least some communities. On balance, the Board does not believe that the cost savings of the proposal clearly justify the potential adverse effects on certain rural communities.

The commenters were united in their opposition to the proposal to define a single abusive lending practice in the CRA regulations (abusive asset-based lending) to the exclusion of other abusive practices.

For these reasons, the Board is withdrawing the entire proposal.

Board of Governors Requests Comment

Proposed Revision to Policy Statement on Payments System Risk

The Federal Reserve Board on April 21, 2004, requested comment on proposed revisions to Part II of its Policy Statement on Payments System Risk (PSR Policy), which addresses risk management in payments and securities settlement systems.

The proposed revisions update the policy in light of current industry and supervisory risk management approaches and new international risk management standards for payments and securities settlement systems. In addition, they provide further clarification regarding the policy's objectives, scope, and application.

The key revisions include an expansion of the policy's scope to include those Federal Reserve Bank payments and securities settlement systems that meet the policy's application criteria, revised general risk management expectations for systems subject to the policy, and the incorporation of both the Core Principles for Systemically Important Payment Systems (Core Principles) and the Recommendations for Securities Settlement Systems (Recommendations).

The Core Principals were developed by the Committee on Payment and Settlement Systems (CPSS) of the central banks of the Group of Ten countries. The Recommendations were developed by the CPSS and the Technical Committee of the International Organization of Securities Commissions.

Proposed Rule to Retain Trust Preferred Securities

The Federal Reserve Board on May 6, 2004, requested public comment on a proposed rule that would retain trust preferred securities in the tier 1 capital of bank holding companies (BHCs), but with stricter quantitative limits and clearer qualitative standards.

Under the proposal, after a three-year transition period, the aggregate amount of trust preferred securities and certain other capital elements would be limited to 25 percent of tier 1 capital elements, net of goodwill. The amount of trust preferred securities and certain other elements in excess of the limit could be included in tier 2 capital, subject to restrictions. Internationally active BHCs would generally be expected to limit trust preferred securities and certain other capital elements to 15 percent of tier 1 capital elements, net of goodwill.

Comments were requested by July 11, 2004.

The proposed revisions address supervisory concerns, competitive equity considerations, and recent changes in accounting for trust preferred securities under generally accepted accounting principles (GAAP). The proposal also would strengthen the definition of regulatory capital by incorporating longstanding policies that are not explicitly set forth in the Board's current capital guidelines.

However, the proposal would not affect the way BHCs account for trust preferred securities on their regulatory reports filed with the Federal Reserve. Consistent with longstanding Federal Reserve direction, BHCs follow GAAP in accounting for these instruments for regulatory reporting purposes.

Adequacy of Existing Disclosures of Debit Card Fees

The Federal Reserve Board on May 18, 2004, announced that it will conduct a study on debit card fees and requested public comment on the adequacy of existing disclosures of such fees to consumers.

Members of the Senate Banking, Housing, and Urban Affairs Committee asked the Board to study debit card fees imposed by financial institutions when their customers complete a point-of-sale debit transaction by providing their personal identification number, or PIN. This request reflected their concern that consumers may be unaware, or not adequately informed, that their bank may impose fees when the consumer chooses to use a PIN, rather than a signature, to authorize a transaction at point-of-sale.

The Electronic Fund Transfers Act (EFTA) sets forth the existing disclosure requirements governing electronic fund transfers (EFTs), and provides a basic framework for establishing the rights, liabilities, and responsibilities of participants in EFT systems. The types of transfers covered by the EFTA include transfers initiated through point-of-sale terminals, automated teller machines, and others. The statute and its implementing regulation (Regulation E, Electronic Fund Transfers) require the initial disclosure of specified terms and conditions of an EFT service, including fees, and further require terminal receipts and periodic account activity statements.

In connection with the study, the Board is soliciting comment on whether the existing disclosures required by the EFTA effectively make consumers aware of the imposition of debit card transaction fees by their financial institution when they choose to use a PIN. The Board also seeks the public's views on the need for, and the potential benefits of, requiring additional disclosures in each periodic account activity statement to reflect such debit card fees.

This *Federal Register* solicitation of comment is one element of the broader study requested, in which the Board has also been asked to study the prevalence of debit card PIN-use fees being imposed, and the feasibility of requiring real-time disclosure of such fees at the point of sale, among other issues.

Public comment on the specific issues identified will assist the Board in preparing the study and report that will be submitted to members of the Congress in November 2004.

Prescreened Solicitations for Credit or Insurance

The Federal Reserve Board on May 18, 2004, requested public comment on a Board study and a report to the Congress on prescreened solicitations for credit or insurance.

The Fair and Accurate Credit Transactions Act of 2003 (FACT Act), which generally amends the Fair Credit Reporting Act (FCRA), requires the Board to conduct a study concerning prescreened solicitations. Under the FCRA, creditors and insurers in specific

circumstances may use certain consumer reports as the basis for sending unsolicited offers of credit or insurance to consumers who meet certain criteria for credit worthiness or insurability (so-called *prescreened solicitations*).

The FCRA provides a mechanism by which consumers can elect not to receive these prescreened solicitations, by directing consumer reporting agencies to exclude the consumer's name and address from lists provided by these agencies to creditors or insurers for use in sending prescreened solicitations. Section 213(e) of the FACT Act requires the Board to conduct a study of the ability of consumers to avoid receiving these prescreened solicitations (including using the mechanism described above), and the potential effect of any further restrictions on providing consumers with such prescreened solicitations.

The Board is requesting public comment on a number of issues to assist in preparation of the study and a report that the Board must submit to the Congress by December 4, 2004.

Proposed Revisions to Bank Holding Company Rating System

The Federal Reserve on July 23, 2004, requested public comment on proposed revisions that would better align the bank holding company rating system with current supervisory practices.

The proposed rating system incorporates an increased emphasis on risk management, a more flexible and comprehensive evaluation of financial condition, and an explicit determination of the likelihood that the nondepository entities of a holding company will have a significant negative effect on the depository subsidiaries.

Under the revised rating system, each holding company would be assigned a composite rating (C) based on an evaluation and rating of three essential components of an institution's financial condition and operations: risk management (R); financial condition (F); and potential impact (I) of the parent company and nondepository subsidiaries on the subsidiary depository institutions. A fourth component in the rating system, (D), would generally mirror the primary supervisors' assessment of the subsidiary depository institutions. (A simplified version of the rating system would be applied to noncomplex bank holding companies with assets of less than $1 billion.)

To provide a consistent framework for assessing risk management, the risk-management component is supported by four qualitatively rated subcomponents: competence of board and senior management; policies, procedures, and limits; risk monitoring and management information systems; and internal controls.

The financial condition component is supported by four numerically rated subcomponents: capital adequacy, asset quality, earnings, and liquidity.

The proposal also contains guidance on implementation of the revised rating system based on holding company size and complexity.

Bank Regulatory Agencies

Rollout Delayed of Web-Based Central Data Repository for Bank Financial Data

The federal banking agencies announced on July 22, 2004, that they would postpone the rollout of the Central Data Repository (CDR)—an Internet-based system created to modernize and streamline the way that the agencies collect, validate, and distribute financial data, or *Call Reports*, submitted by banks. Originally scheduled to be implemented on October 1, 2004, the system's start date will be delayed to address industry feedback and allow more time for testing and enrollment. A new timeline for implementation was announced in August.

The decision to delay implementation of the CDR was made to address delays in system development and testing. Moreover, the agencies had received an increasing number of questions and concerns about the new system from banks, industry trade associations, software vendors, and other stakeholders.

Initial testing of the system demonstrated that the technology chosen is sound and that the XBRL standard underlying the system's framework will perform as required. However, Call Report data represent a critical source of information for the bank supervision process, and the banking agencies determined that a postponement was warranted.

The agencies are considering alternative plans for the CDR rollout, including phasing in the new technology and business models in separate reporting quarters. For now, the agencies will continue to collect, validate, and manage Call Report data using their existing processing systems. This includes the retention of Electronic Data Services Corporation as the agencies' electronic collection agent for Call Report data. Accordingly, banks will continue filing their Call Report in the same manner until they are notified by the agencies to begin using the new CDR system.

This initiative—the *Call Report Modernization Project*—is an interagency effort under the auspices of the Federal Financial Institutions Examination

Council (FFIEC). Additional project details and other important information are posted on the FFIEC's web site at www.FFIEC.gov/FIND.

Issuance of Rules and Guidance

Rule on Use of Medical Information for Credit Eligibility

The federal bank, thrift institution, and credit union regulatory agencies on April 23, 2004, issued for publication in the *Federal Register* a proposed rule under the Fair Credit Reporting Act (FCRA) that would incorporate the statutory prohibition on obtaining or using medical information in connection with credit eligibility determinations and, as required by the statute, create certain exceptions to be applied in limited circumstances.

Section 411 of the Fair and Accurate Credit Transactions Act of 2003 (FACT Act) amends the FCRA to provide that a creditor may not obtain or use medical information in connection with any determination of a consumer's eligibility, or continued eligibility, for credit, except as permitted by regulations. The FACT Act requires the agencies to prescribe regulations that permit creditors to obtain and use medical information for eligibility purposes when necessary and appropriate to protect legitimate operational, transactional, risk, consumer, and other needs. The FACT Act further provides that the regulations creating these exceptions would be issued in final form within six months of the date of enactment of the FACT Act, or June 4, 2004.

As required by section 411, the proposed regulations would grant exceptions to allow creditors to obtain or use medical information in those circumstances that the agencies believe are necessary and appropriate in connection with determinations of consumer eligibility for credit.

Section 411 of the FACT Act also amends the FCRA to limit the ability of creditors and others to share medical-related information with affiliates, except as permitted by the statute, regulation, or order. The proposed rule would enumerate situations in which creditors would be permitted to share medical information among affiliates.

The proposed rule was issued by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision. The rules of each agency are substantively identical.

Guidance on Overdraft Protection Programs

The federal financial institutions supervisory agencies on May 28, 2004, issued proposed guidance to assist insured depository institutions in the responsible disclosure and administration of overdraft protection services.

The proposed guidance identifies concerns raised by institutions, financial supervisors, and the public about the marketing, disclosure, and implementation of overdraft protection programs. To address these concerns, the proposed guidance: (1) seeks to ensure that financial institutions adopt adequate policies and procedures to address the credit, operational, and other risks associated with overdraft protection services; (2) alerts institutions offering these services to the need to comply with all applicable federal and state laws; and (3) sets forth examples of best practices that are currently observed in, or recommended by, the industry.

The proposal is being issued under the auspices of the Federal Financial Institutions Examination Council (FFIEC) by its member agencies: the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

Rule on Affiliate Marketing Opt Outs

The federal financial institutions supervisory agencies on July 2, 2004, issued proposed regulations that would give consumers the chance to *opt out* before a financial institution uses information provided by an affiliated company to market its products and services to the consumer.

The proposed rulemaking would implement the affiliate marketing provisions in section 214 of the Fair and Accurate Credit Transactions Act of 2003 (FACT Act), which adds a new section 624 to the Fair Credit Reporting Act (FCRA). The proposal generally would prohibit an institution from using certain information about a consumer it receives from an affiliate to make a solicitation to the consumer unless the consumer has been given notice and an opportunity to opt out of the solicitation. An institution that has a pre-existing business relationship with the consumer would not be subject to this marketing limitation. Nothing in the new affiliate marketing opt out supercedes or replaces the provisions in section 603 of the FCRA concerning the right to opt out of the sharing of information among affiliates,

although there is some overlap between the two opt out requirements.

The proposal was issued by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

Final Rule on Capital Requirements for Asset-Backed Commercial Paper Programs

The federal banking and thrift institution regulatory agencies on July 20, 2004, issued a final rule amending their risk-based capital standards. The rule permits sponsoring banks, bank holding companies, and thrift institutions (banking organizations) to continue to exclude from their risk-weighted asset base, for purposes of calculating the risk-based capital ratios asset-backed commercial paper (ABCP) program, assets that are consolidated onto sponsoring banking organizations' balance sheets as a result of Financial Accounting Standards Board Interpretation No. 46, Consolidation of Variable Interest Entities, as revised (FIN 46R). This provision of the final rule will make permanent an existing interim final rule.

The final rule also requires banking organizations to hold risk-based capital against eligible ABCP liquidity facilities with an original maturity of one year or less that provide liquidity support to ABCP by imposing a 10 percent credit conversion factor on such facilities. Eligible ABCP liquidity facilities with an original maturity exceeding one year remain subject to the current 50 percent credit conversion factor. Ineligible liquidity facilities are treated as direct credit substitutes or recourse obligations and are subject to a 100 percent credit conversion factor. The resulting credit equivalent amount is then risk weighted according to the underlying assets, after consideration of any collateral, guarantees, or external ratings, if applicable. All liquidity facilities that provide liquidity support to ABCP will be treated as eligible liquidity facilities for a one-year transition period.

The rule, which will be published shortly in the *Federal Register*, becomes effective on September 30, 2004.

Bank Secrecy Act Examination Procedures

The federal financial institutions regulatory agencies on July 28, 2004, issued Bank Secrecy Act (BSA) procedures for examining each domestic and foreign banking organization's customer identification program (CIP), which is required by section 326 of the USA Patriot Act (codified in the BSA at 31 U.S.C. 5318(*l*)). The procedures are designed to help financial institutions fully implement the new CIP requirements and facilitate a consistent supervisory approach among the federal financial institutions regulatory agencies.

The USA Patriot Act, signed into law on October 26, 2001, establishes new and enhanced measures to prevent, detect, and prosecute money laundering and terrorism. The regulation implementing section 326 of the act requires each financial institution to implement a written CIP that includes certain minimum requirements and is appropriate for its size and type of business. The CIP must be incorporated into the financial institution's anti-money laundering compliance program, which is subject to approval by the financial institution organization's board of directors.

Compliance with the regulation was required by October 1, 2003.

Regulatory Agencies Request Comment

Statement Concerning Complex Structured Finance Activities

Five federal agencies on May 14, 2004, requested public comment on a proposed statement describing internal controls and risk management procedures that the agencies believe will assist financial institutions that engage in complex structured finance activities to identify and address the risks associated with such transactions.

As recent events have highlighted, a financial institution may assume substantial reputational and legal risk if the institution enters into a complex structured finance transaction with a customer and the customer uses the transaction to circumvent regulatory or financial reporting requirements, evade tax liabilities, or further other illegal or improper behavior.

The interagency statement describes the types of internal controls and risk management procedures that should help financial institutions effectively manage and address the reputational, legal, and other risks associated with their complex structured finance activities and operate in accordance with applicable law. The statement, among other things, provides that financial institutions engaged in complex structured finance activities should have effective policies and procedures in place to

• identify those complex structured finance transactions that may involve heightened reputational and legal risk;
• ensure that these transactions receive enhanced scrutiny by the institution; and
• ensure that the institution does not participate in illegal or inappropriate transactions.

The statement also emphasizes the critical role of an institution's board of directors and senior management in establishing a corporate-wide culture that fosters integrity, compliance with the law, and overall good business ethics.

The proposed statement was issued by the Securities and Exchange Commission, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision. The statement would represent supervisory guidance for institutions supervised by the four banking agencies and a policy statement for institutions supervised by the Securities and Exchange Commission.

On June 18, 2004, the five federal agencies agreed to extend for thirty days the comment period on the proposed Interagency Statement on Sound Practices Concerning Complex Structured Finance Activities, published in the *Federal Register* on May 19, 2004.

In a letter submitted to the five agencies on June 10, 2004, eight trade associations representing financial institutions asked the agencies to provide the public with an additional thirty-day period to review, analyze, and submit comments on the proposed interagency statement.

The extended public comment period on the interagency statement ended July 19, 2004. The scope and comment process for the interagency statement remained as stated in the original *Federal Register* notice of May 19, 2004.

Disposal of Consumer Information

The federal bank and thrift institution regulatory agencies on June 8, 2004, invited public comment on an interagency proposal to require financial institutions to adopt measures for properly disposing of consumer information derived from credit reports.

Current law requires financial institutions to protect customer information by implementing information security programs. The proposed rules would require institutions to make adjustments to their information security programs to properly dispose of the types of consumer information that are not already protected. This would include information from credit reports about a financial institution's employee or about an individual whose application for a product or service is denied.

The agencies' proposal implements section 216 of the Fair and Accurate Credit Transactions Act of 2003 (FACT Act). Although not imposing significant additional burden, the proposed rules would make amendments to include this new statutory requirement in the *Interagency Guidelines Establishing Standards for Safeguarding Customer Information*, which were adopted in 2001. The agencies' proposed rules add a new definition of *consumer information* and a provision to require financial institutions to implement appropriate measures to properly dispose of consumer information.

The proposal would take effect three months after a final rule is adopted.

Board Begins 2004 Survey of Consumer Finances

The Federal Reserve Board announced on May 25, 2004, that in June, it would begin a statistical study of household finances, the Survey of Consumer Finances, that will provide policymakers with important insight into the economic condition of all types of American families.

The survey, undertaken every three years since 1983, is being conducted for the Board by NORC, a social science research organization at the University of Chicago, through December 2004.

The data collected will provide a representative picture of what Americans own—from houses and cars to stocks and bonds—how and how much they borrow and how they bank. Past study results have been important in policy discussions regarding pension and social security reform, tax policy, deposit insurance reform, and a broad range of other areas.

"Although good overall information on the state of the major sectors of the economy is available regularly, our knowledge about the financial circumstances faced by different types of households is much more limited," Alan Greenspan, Chairman of the Board of Governors of the Federal Reserve System, said in a letter to prospective survey participants. "Our survey fills a key part of this gap," he said.

The 2004 survey will contain a new section on the pension entitlements that families have. Earlier versions of the survey have collected data separately on traditional defined-benefit pension plans and account-

based plans, such as 401(k) accounts. In recent years, classification and measurement of pensions have been complicated by the growth of pension arrangements that combine aspects of both types of plans—particularly defined benefit plans with a specified cash settlement option in lieu of regular retirement payments, such as in a *cash balance plan*. The new question sequence will focus more on attributes of plans instead of asking the survey participants to make rigid distinctions between abstract types of plans that they may not understand fully.

Participants in the study are chosen at random from seventy-nine areas across the United States, using a scientific sampling procedure. A representative of NORC contacts each potential participant personally to explain the study and request time for an interview.

"Let me assure you that protecting the privacy of survey participants has the highest priority in our data collection system," Mr. Greenspan said. NORC uses names and addresses only for the administration of the survey, and that identifying information will be destroyed at the close of the 2004 study. NORC is required never to give the names and addresses of participants to anyone at the Federal Reserve or anywhere else.

Information provided by survey participants is also protected by the Confidential Information Protection and Statistical Efficiency Act of 2002. This act prohibits the Federal Reserve or any of its employees or agents (including NORC) from using the information provided by a participant for any nonstatistical purpose, or from disclosing the information in a way that would identify the participant without the participant's consent. To help ensure compliance, the act includes strong criminal penalties for any person that violates the act's protections.

Summary results for the 2004 study will be published in early 2006 after all data from the survey have been assessed and analyzed.

Board Begins Survey of Small Business Finances

The Federal Reserve Board on June 10, 2004, announced that it had begun the latest Survey of Small Business Finances in June 2004, the fourth in a series since 1988 aimed at increasing policymakers' understanding of the ways economic and regulatory changes affect small firms' access to credit.

On behalf of the Board, NORC (a social science research organization at the University of Chicago) is collecting information from small businesses about their finances in 2003. Through the end of 2004, it will conduct telephone interviews with 4,000 executives at firms of fewer than 500 employees.

In a letter, Federal Reserve Chairman Alan Greenspan encouraged the business owners that were randomly selected for the survey to participate, noting that the data collected by past surveys have been critical for policy decisions at the Federal Reserve and in other parts of government.

"The Federal Reserve Board is concerned with the ways in which economic and regulatory changes affect small businesses. . . . Such changes can, in turn, have important implications for economic policymaking," he wrote.

The last survey collected information on small business finances in 1998. Both the state of the economy and the use of technology are very different today than they were then. The Board plans to publish findings from the new study in early 2006 after all the data have been collected and analyzed.

Participants are randomly selected from all fifty states and the District of Columbia using scientific sampling methods. They will be asked about their use of credit and other financial services and their experience in obtaining credit during 2003. Information will be collected about firms' assets, liabilities, income, and expenses.

Participation is voluntary but a broad sample will help government policymakers more clearly understand the effect of their actions on small businesses. The names and addresses of participants and any other identifying information will be held in the strictest confidence. Information provided by survey participants is also protected by the Confidential Information Protection and Statistical Efficiency Act of 2002. This act prohibits the Federal Reserve or any of its employees or agents (including NORC) from using the information provided by a participant for any nonstatistical purpose, or from disclosing the information in a way that would identify the participant without the participant's consent. To help ensure compliance, the act includes strong criminal penalties for any person that violates the act's protections.

More information is available on the Federal Reserve's web site at www.federalreserve.gov/ssbf or NORC's site at www.norc.uchicago.edu/ssbf.

Federal Reserve Banks Announce Strategy to Meet Evolving Demands of Payments System

The Federal Reserve Banks on June 16, 2004, announced a strategy to accommodate the evolution

of the nation's payments system from paper check processing to electronic processing, a development driven by a significant broad-based change in user preference. The Reserve Banks' strategy entails launching new products and services to support the implementation of the Check 21 Act in October 2004, as well as streamlining its check-processing infrastructure by discontinuing check processing at locations to be announced later this year. Even with these changes, the Federal Reserve Banks will continue to provide check-processing services on a national basis.

In this effort, Reserve Banks will provide opportunities through their Check 21 products and services for financial institutions to make use of electronic check services as a means of reducing their overall check operating costs. These steps should also reduce the time during which industry participants and the Reserve Banks must support significant investments in dual processing platforms.

"These steps are part of a forward-looking strategy that acknowledges the financial services industry's ongoing evolution from paper to electronic processing," said Gary Stern, President of the Federal Reserve Bank of Minneapolis and Chairman of the Reserve Banks' Financial Services Policy Committee. "This shift is good for consumers and good for the financial services industry, and the Fed has encouraged this evolution for a number of years. As the payments system moves to accommodate more electronic options, the Fed will embrace a strategy that will respond to the marketplace as necessary."

As part of this strategy, the Reserve Banks will also undertake a thorough annual review of their existing check-processing infrastructure, including potentially discontinuing paper check processing at some locations as the market evolves. Currently, the Reserve Banks are examining their existing check facilities and within the next few months will announce the discontinuation of some additional check-processing facilities through 2005.

The criteria for decisions about infrastructure changes will closely parallel those used in the Reserve Banks' check reengineering initiative announced in 2003, and will rely on an evaluation of volume levels, business retention plans, effects on local markets, and other data. Last year, the Federal Reserve announced a restructuring of its check-processing operations from forty-five to thirty-two sites by year-end 2004.

In 2003, Reserve Banks' check volume declined at about a 5 percent rate. For 2004, check volumes have declined at an accelerated pace compared to the same period last year. A 2001 Federal Reserve study revealed that about 42 billion checks were written that year in the United States, considerably lower than industry estimates. Those volumes are expected to continue to decline in coming years. The Reserve Banks will continue to assist the nation's financial services industry by conducting research related to the nation's payments system. The results of the most recent study will be available later this year.

"The Federal Reserve Banks are committed to their role in providing payments services, and that means responding to the changing demands of the industry," Stern said.

This long-term check-processing strategy will allow the Reserve Banks to better meet the expectations of the 1980 Monetary Control Act. That act requires the Reserve Banks to set prices to recover, over the long run, their total operating costs of providing payment services to depository institutions, as well as the imputed costs they would have incurred and the imputed profits they would have expected to earn had the services been provided by a private business firm.

"To date, the transfer of Fed check-processing activities to other Fed sites has occurred smoothly, with deposit times and availability transitioning as close to existing service levels as possible," Stern said. "We expect a smooth transition for the next round of restructuring."

As before, the Reserve Banks will offer a variety of programs to affected staff. These programs include separation packages, extended medical coverage, and career transition assistance.

"While the changes in payments technology are good for consumers and make the industry more efficient, these changes mean that the Reserve Banks will be losing dedicated management and staff," Stern said. "While regrettable, these job reductions are an outgrowth of change, and the Reserve Banks will do their best to make this transition as smooth as possible for affected employees."

Appointment of Jeffrey M. Lacker as President, Federal Reserve Bank of Richmond

Jeffrey M. Lacker has been appointed president of the Federal Reserve Bank of Richmond, effective August 1, 2004. He succeeds J. Alfred Broaddus, Jr., who last November, announced his intention to retire. Lacker is currently senior vice president and director of research at the Federal Reserve Bank of Richmond.

The appointment was made by the Board of Directors of the Federal Reserve Bank of Richmond and

approved by the Board of Governors of the Federal Reserve System in Washington, D.C. Wesley S. Williams, Jr., Chairman of the Federal Reserve Bank of Richmond's Board of Directors, made the announcement on June 17, 2004.

Commenting on the announcement, Williams said,

> "After conducting a nationwide search, I am pleased to say that Jeff Lacker, the Bank's current director of research, proved to be a natural choice to lead the Federal Reserve Bank of Richmond. Jeff is a respected economist with sound knowledge of monetary policy, the nation's banking system, and the Federal Reserve's role in the payments system. Jeff has the rare combination of knowledge and Federal Reserve experience to provide the vision needed in facing the challenges of the future. Additionally, he is a brilliant manager, and is uniquely attuned to the community development responsibilities of the Federal Reserve Banks and System. My colleagues on the Richmond Fed board concluded that Jeff was clearly the best possible choice to carry forward the laudable traditions of this great institution, and to serve our Fifth District communities."

Williams also expressed appreciation to Al Broaddus for his thirty-four years of service to the Federal Reserve Bank of Richmond, and for his countless contributions to the Federal Reserve System. Broaddus turned sixty-five in July, the age at which Federal Reserve Bank presidents usually retire.

> "It has been a great pleasure working with Al Broaddus," Lacker said. "He leaves behind an outstanding legacy of contributions to monetary policy, the Richmond Fed, and the Federal Reserve System. I am honored to have been chosen for this post, and I look forward to working with community, business, and banking leaders around the District."

Lacker is only the seventh person to lead the Richmond Federal Reserve Bank in its ninety-year history.

> "I have known and worked closely with Jeff for many years," Broaddus said. "He is a strong and collegial leader and an excellent economist. He is a superb choice to lead our Bank on the next stage of its long journey of distinguished public service."

Jeff Lacker, forty-eight, is a graduate of Franklin and Marshall College and received a Ph.D. in economics from the University of Wisconsin. Lacker was an assistant professor of economics at the Krannert School of Management, Purdue University, from 1984 to 1989. He joined the Bank in 1989 as an economist in the banking area of the Research Department. Lacker was named research officer in 1994, vice president in 1996, and senior vice president and director of research in May 1999.

Federal Open Market Committee Schedule for 2005

The Federal Open Market Committee on June 25, 2004, announced its tentative meeting schedule for 2005: February 1–2 (Tuesday–Wednesday), March 22, May 3, June 29–30 (Wednesday–Thursday), August 9, September 20, November 1, and December 13, 2005; and January 31–February 1, 2006 (Tuesday–Wednesday).

United States Unveils New $50 Note

U.S. government officials from the Department of the Treasury, the Federal Reserve, and the United States Secret Service, on April 26, 2004, unveiled the new $50 note design with enhanced security features, subtle background colors of blue and red, images of a waving American flag, and a small metallic silver-blue star.

The new design is part of the government's ongoing efforts to stay ahead of counterfeiting and to protect the integrity of U.S. currency. The new $50 note, which is planned to be issued in late September or early October, is the second denomination in the Series 2004 currency. The first was the $20 note, which began circulating in October 2003.

"U.S. currency is a worldwide symbol of security and integrity. These new designs help us keep it that way, by protecting against counterfeiting and making it easier for people to confirm the authenticity of their hard-earned money," U.S. Treasury Secretary John W. Snow said. "In addition to keeping our currency safe from counterfeiters, the President's economic policies are ensuring that more of those dollars stay in the pockets of American families."

Snow was joined at the unveiling of the new $50 note's design by Federal Reserve Board Governor Mark W. Olson, Tom Ferguson, Director of the Treasury's Bureau of Engraving and Printing, which produces U.S. currency, and C. Danny Spriggs, Deputy Director of the United States Secret Service, the law enforcement agency responsible for combating counterfeiting.

The new $50 note was unveiled at the Bureau of Engraving and Printing's Western Currency Facility (WCF) in Fort Worth, Texas, and the occasion also marked the grand opening of the WCF's new Visitor Center. The Visitor Center, which plans to welcome

500,000 guests annually, offers free tours to the public five days a week since opening on April 27, 2004, and provides a much anticipated tourism draw to the Dallas–Fort Worth community. At the Visitor Center, guests enjoy tours of the production facility, learn about the technology and history of U.S. currency through interactive displays, and purchase money-themed items and souvenirs in the gift shop.

The WCF, which prints 55 percent of all U.S. paper currency, is the only location other than the Bureau's Washington, D.C., facility that prints the nation's currency, and it will also be printing the first run of the newly redesigned $50 note.

The new $50 notes will be safer, smarter, and a more secure currency: safer because they will be harder to fake and easier to check; smarter to stay ahead of tech-savvy counterfeiters; and more secure to protect the integrity of U.S. currency.

"We want the public to know how to use the security features to protect their hard-earned money," said Spriggs. "The combined efforts of public education, aggressive law enforcement, and improved currency security features have increased public awareness and have helped in the fight against counterfeiting."

Despite counterfeiters' increasing use of technology, advanced counterfeit deterrence efforts on the part of the authorities have kept counterfeiting at low levels. Current estimates put the rate of counterfeit $50 notes in circulation worldwide at less than one note for every 25,000 genuine $50 notes in circulation.

"A sound currency, which this new $50 note will foster, is a pivotal factor in the strength of our economy," said Olson. He said that preparations for issuing the new $50 note will include educational outreach to businesses, financial institutions, and consumers that use the denomination most. "Our objective is a smooth transition for the newly designed currency into daily cash transactions. For that to happen, it must be recognized and honored as legal tender, and those who use it and handle it must know how to verify its authenticity."

The $50 note will be followed later by a new $100 note. Decisions on new designs for the $5 and $10 notes are still under consideration, but a redesign of the $1 and $2 notes is not planned. Even after the new money is issued, older-design notes will remain legal tender.

Because counterfeiters are turning increasingly to digital methods and as advances in technology make digital counterfeiting easier and cheaper, the government is staying ahead of counterfeiters by updating the currency every seven to ten years.

"We have to stay ahead of technology, which is developing and progressing at an ever-increasing rate. Items like digital printers and higher quality scanners are becoming more readily available at cheaper prices," said Ferguson. "So we have to make our currency notes safer, smarter, and more secure in order to stay ahead of the would-be counterfeiters."

The New Color of Money

Although consumers should not use color to check the authenticity of their currency (relying instead on user-friendly security features), color does add complexity to the note, making counterfeiting more difficult. Different colors will be used for different denominations, which will help everyone—particularly those who are visually impaired—to tell denominations apart.

The new notes feature subtle background colors and highlight historical symbols of Americana. The $50 note, which will be issued in late 2004, includes subtle background colors of blue and red, and images of a waving American flag and a small metallic silver-blue star.

Security Features

The new $50 design retains three important security features that were first introduced in the 1990s and are easy for consumers and merchants alike to check:

- watermark: a faint image, similar to the portrait, which is part of the paper itself and is visible from both sides when held up to the light.
- security thread: also visible from both sides when held up to the light, this vertical strip of plastic is embedded in the paper and spells out the denomination in tiny print.
- color-shifting ink: the numeral in the lower right corner on the face of the note, indicating its denomination, changes color when the note is tilted.

Because these features are difficult for counterfeiters to reproduce well, they often do not try. Counterfeiters are hoping that cash-handlers and the public will not check their money closely.

Counterfeiting: Increasingly Digital

Counterfeiters are increasingly turning to digital methods, as advances in technology make digital

counterfeiting of currency easier and cheaper. In 1995, less than 1 percent of counterfeit notes detected in the United States were digitally produced. Since then, digital equipment has become more readily available to the general public, and as a result, the amount of digitally produced counterfeit notes has risen. Over the past several years, the amount of digitally produced counterfeit notes has remained steady at about 40 percent.

Law enforcement has remained aggressive. In 2003, the United States Secret Service made 469 seizures of digital equipment involved in currency counterfeiting, such as personal computers, and made more than 3,640 arrests in the United States for currency counterfeiting activities. The conviction rate for counterfeiting prosecutions is about 99 percent.

Public Education

Public recognition of the currency features, which increased to 85 percent in the United States as a result of the public education effort for the new $20 note, is an important factor in counterfeit deterrence.

Because the improved security features are more effective if the public knows about them, the U.S. government is undertaking a broad public education program. This program will ensure that people all over the world know the new currency is coming, and help them recognize and use the security features. The outreach will include cash-handlers, merchants, business and industry associations, and the media. There is nearly $700 billion in circulation worldwide and as much as two-thirds of U.S. currency is held outside the United States, therefore, the public education program will extend worldwide.

To learn more about the new currency and to download images of the new currency designs, visit www.moneyfactory.com/newmoney.

Businesses, Banks, and Cash-Handling Equipment Manufacturers Get Final Alert to Prepare For New $50 Note

Treasury and Federal Reserve Announce Safer, Smarter, More Secure $50 Note to Begin Circulating September 28, 2004

The newly redesigned Series 2004 $50 notes, featuring subtle background colors of blue and red, images of a waving American flag, and a small metallic silver-blue star, will be issued beginning on September 28, 2004, the U.S. government announced on June 30, 2004. On the day of issue, the Federal Reserve Banks will begin distributing the new notes to the public through commercial banks.

The June 30, 2004, announcement of the $50 note's day of issue signals to banks and businesses that they should make final preparations for the new notes. For some businesses, preparations include training cash-handling employees on how to use the notes' security features, for others it entails making technical adjustments to ATMs or machines with cash receptors, such as vending or automated checkout machines.

"The enhanced security features in this series of notes help ensure that U.S. currency will continue to represent the trust, value, and confidence that people all over the world have grown to rely on and expect," said Federal Reserve Board Governor Mark W. Olson. "As always, all new notes will co-circulate with the older designs. All notes are good for good."

"The objective of the new currency program is a safer, smarter, and more secure currency and its smooth transition into daily commerce," said Tom Ferguson, Director of the Treasury's Bureau of Engraving and Printing (BEP). "To that end, we have been working with the appropriate machine manufacturers for nearly two years to ensure they have the information they need to make their equipment compatible with each newly redesigned note that is introduced into circulation."

Public Education

A variety of training materials—such as posters, training videos, and brochures—is available in twenty-four languages. The materials can be downloaded or ordered through www.moneyfactory.com/newmoney.

Since the Treasury's Bureau of Engraving and Printing (BEP) began taking orders in May 2003, more than 46 million pieces of training materials have been ordered by businesses and other organizations to help them train their cash-handling employees about the notes' enhanced security features.

Additional text that appeared in this press release was also stated in the announcement released on April 26, 2004, "United States Unveils New $50 Note," which appears on page 340 of this issue.

Publication of Revised Capital Framework and U.S. Implementation Plans

The Basel Committee on Banking Supervision on June 26, 2004, released its document "International Convergence of Capital Measurement and Capital Standards: A Revised Framework." The Framework (also referred to as Basel II) represents the outcome of the work of the Basel Committee, with active participation by the United States banking and thrift institution agencies (Agencies), over recent years to secure international convergence on revisions to regulations and standards governing the capital adequacy of internationally active banking organizations. The Framework will form the basis upon which the Agencies, and representatives of the other Basel Committee member countries, develop proposed revisions to existing capital adequacy regulations and standards.

The Framework is available on the Basel Committee's web site at www.bis.org, the Office of the Comptroller of the Currency's (OCC) web site at www.occ.treas.gov, the Federal Reserve Board's (Federal Reserve) web site at www.federalreserve.gov, the Federal Deposit Insurance Corporation's (FDIC) web site at www.fdic.gov, and the Office of Thrift Supervision's (OTS) web site at www.ots.treas.gov.

U.S. Implementation Plans

As noted, the Framework would form the basis upon which the Agencies develop proposed revisions to their existing risk-based capital adequacy regulations. As previously announced, the Agencies expect that only a small number of large, internationally active U.S. banking organizations would be required to use the Framework, and that those institutions would use only the most advanced approaches for determining their risk-based capital requirements. Application of the Framework's advanced approaches to other qualifying U.S. banking organizations would be at the banking organization's option.

The Agencies have developed a comprehensive plan to incorporate the advanced risk and capital measurement methodologies of the Framework into regulations and supervisory guidance for U.S. institutions. This plan would ensure that U.S. implementation efforts are consistent with the Framework; reflect the unique statutory, regulatory, and supervisory processes in the United States; and appropriately seek and consider comments on individual aspects of the plan from all interested parties.

Before implementation, it is expected that institutions using Framework-based regulations and guidance will first be subject to a year of *parallel running;* for example, application of the advanced approaches in tandem with the current risk-based capital regime, beginning in January 2007. The Agencies anticipate that the Framework would become fully effective in the United States in January 2008. The Agencies plan to apply prudential floors to risk-based regulatory capital calculations in the two years immediately after adoption of the Framework. Qualified institutions that opt in to the Framework subsequent to the initial implementation period would be subject to a similar phase-in schedule (for example, parallel running and floors).

Given the investments needed to qualify for the advanced approaches of the Framework, the Agencies believe that it would be prudent for banking organizations that expect to adopt the Framework on or near the effective date to begin planning their implementation efforts. To facilitate such efforts, the Agencies have described below the significant milestones in the development of Framework-based regulations, guidance, and policies. Additional information on these activities will be forthcoming.

Supervisory Guidance

The Agencies are developing supervisory guidance for various portfolios and risk exposures addressed by the Framework. This guidance is intended to provide U.S. institutions and supervisors with a clear description of the essential components and characteristics of the measurement and management structure for these risks and to describe relevant supervisory expectations for banking organizations adopting a Framework-based process for the determination of minimum regulatory risk-based capital requirements.

The Agencies have previously published, for notice and comment, draft supervisory guidance on Internal Ratings-Based Systems (IRB) for Corporate Credit and on the Advanced Measurement Approaches (AMA) for Operational Risk. See 68 *Federal Register* 45949 (August 4, 2003). The Agencies expect to publish, for notice and comment, draft supervisory guidance on IRB Systems for Retail Credit in the third quarter of 2004. Over the course of the next year, the Agencies will publish for comment additional guidance on other aspects of IRB Systems.

Institutions that expect to adopt the Framework are encouraged to consider the supervisory standards

articulated in the guidance in developing their implementation plans for the adoption of Framework-based systems. Specifically, institutions should begin to self-assess the extent to which their systems and processes comply with or differ from proposed supervisory standards. The Agencies expect to publish additional information regarding the process that will be used to assess individual institutions' efforts to meet IRB and AMA qualifying standards.

Additional Quantitative Impact Study

Later, the Agencies will conduct a fourth Quantitative Impact Study (QIS-4) to evaluate the potential effects of a U.S. implementation of the Framework. QIS-4 will assist banking organizations and their supervisors in better understanding the implications of this proposal on the regulatory capital requirements of individual institutions and may provide some insight with regard to the competitive implications of the new rules. A full or partial recalibration of the Framework may be considered based on the results of the QIS-4 exercise.

Although other countries may undertake joint or independent reviews similar to QIS-4, the forthcoming study, as implemented in the United States, will be tailored to the domestic interests of the Agencies and will focus on the effect of the proposal on U.S. banking organizations, especially those large internationally active institutions that the Agencies have proposed to require to conform to Framework-based regulations. Other institutions that anticipate adhering to Framework-based regulations on a voluntary basis may also participate in the study in order to understand better the nature of the internal risk measurement information that the new rules would require and to estimate their resulting capital requirements.

As before, the Agencies will request that participants submit requested information by completing a series of computerized spreadsheets—the Agencies will ensure consistency in responses through detailed instructions, questionnaires, and supervisory oversight. The Agencies expect to finalize and distribute survey materials to participating institutions in October 2004 and to request that institutions complete and return the survey results by mid-January 2005. Institutions that want to participate in the study were advised to discuss the project with their federal supervisor(s) by the end of July 2004.

Revision of Capital Adequacy Regulations

In August 2003, the Agencies published for notice and comment an advance notice of proposed rulemaking (ANPR), discussing possible revisions to U.S. risk-based capital adequacy regulations relating to an earlier iteration of the Framework. See 68 *Federal Register* 45900 (August 4, 2003). With the publication of the Framework, the Agencies will continue this rulemaking process.

As provided in the ANPR, the Agencies expect that some U.S. banking organizations would use the most advanced approaches set forth in the Framework to determine their risk-based capital requirements, while others would continue to apply the existing capital rules. As a result, the United States would have a bifurcated regulatory capital framework. In conjunction with the assessment of U.S. risk-based capital adequacy regulations relating to the Framework, the Agencies are assessing possible changes to capital regulations for U.S. institutions that are not subject to Framework-based regulations.

Importantly, all U.S. banking organizations would continue to be subject to a leverage ratio requirement under existing regulations, and Prompt Corrective Action (PCA) legislation and implementing regulations would remain in effect.

The Agencies expect that a notice of proposed rulemaking on possible revisions to risk-based capital adequacy regulations relating to the Framework will be published in mid-2005. After fully considering all comments, the Agencies expect to be in a position to publish final rules on this proposal in the second quarter of 2006. Possible changes to capital regulations for U.S. institutions that are not subject to the Framework-based regulations would be considered and addressed in this same general timeframe.

PUBLICATION OF THE MAY 2004 UPDATE TO THE *COMMERCIAL BANK EXAMINATION MANUAL*

The May 2004 update to the *Commercial Bank Examination Manual* has been published (Supplement No. 21), and the publisher has sent copies to each Reserve Bank for distribution to examiners and other staff members. The new supplement includes supervisory and examination guidance on the following subjects:

1. *Rules on the Authority to take Disciplinary Actions against Independent Accountants and Accounting Firms that Perform Audit and Attestation Services*. The federal

banking agencies (the agencies) jointly issued rules, as implemented by 12 CFR 363, that govern the agencies' authority to take disciplinary actions against independent accountants and accounting firms that perform audit and attestation services that are required by section 36 of the Federal Deposit Insurance Act. See the Board's August 8, 2003, press release.

Attestation services address management's assertions concerning internal controls over financial reporting by an independent public accountant. A federally insured depository institution must include the accountant's audit and attestation reports in its annual report. The rules, effective October 1, 2003, established procedures under which the agencies can, for good cause, remove, suspend, or bar an accountant or firm from performing audit and attestation services for federally insured depository institutions with assets of $500 million or more.

2. *Mortgage Banking*. The loan portfolio management section was revised to provide references to accounting pronouncements (that are consistent with the bank Call Report's instructions) that apply to mortgage banking transactions and activities. Also, comprehensive mortgage banking examination procedures are provided in the manual's appendix, inclusive of the examination procedures and valuation concerns found in the February 25, 2003, Interagency Advisory on Mortgage Banking, "Risk Management and Valuation of Mortgage Servicing Assets Arising from Mortgage Banking Activities"; the mortgage banking examination modules; and many of the inspection (examination) procedures found in the mortgage banking section 3070.0 of the *Bank Holding Company Supervision Manual*. See SR letter 03-4.

3. *Interagency Statement on Independent Appraisal and Evaluation Functions*. The section on real estate appraisals and evaluations and the respective examination procedures and internal control questionnaire were revised to incorporate this October 27, 2003, interagency statement. The statement emphasizes that a banking institution's board of directors is responsible for reviewing and adopting policies and procedures that establish and maintain an effective, independent real estate appraisal and evaluation program (the program) for all of its lending functions. Concerns about the independence of appraisals and evaluations arise from the risk that improperly prepared appraisals may undermine the integrity of credit-underwriting processes. An institution's lending functions should not have undue influence that might compromise the program's independence. See SR letter 03-18.

4. *Interagency Policy on Banks and Thrift Institutions Providing Financial Support to Funds Advised by the Banking Organization or its Affiliates*. New sections discuss this January 5, 2004, policy that alerts banking organizations, including their boards of directors and senior management, of the safety-and-soundness implications of and the legal impediments to a bank providing financial support to investment funds advised by the bank, its subsidiaries, or affiliates (that is, an affiliated investment fund).

The interagency policy emphasizes the following three core principles. A bank should not (1) inappropriately place its resources and reputation at risk for the benefit of affiliated investment funds' investors and creditors; (2) violate the limits and requirements contained in Federal Reserve Act sections 23A and 23B and Regulation W, other applicable legal requirements, or any special supervisory condition imposed by the agencies; or (3) create an expectation that the bank will prop up the advised fund (or funds). See SR letter 04-1.

5. *Foreign Banking Offices and Organizations*. The section on bank-related organizations was revised to include brief definitions and descriptions on limited Regulation K authorized activities and services that are applicable to foreign bank offices and organizations (that is, foreign bank branches, agencies, commercial lending companies, representative offices, and correspondent banks). Also, for the purposes of sections 23A and 23B, the definition of affiliate was further clarified and expanded based upon the provisions of the Board's Regulation W.

A more detailed summary of changes is included with the update package. Copies of the new supplement were shipped directly by the publisher to the Reserve Banks for the distribution to examiners and other System staff. The public may obtain the *Manual* and the updates (including pricing information) from Publications Fulfillment, Mail Stop 127, Board of Governors of the Federal Reserve System, Washington, DC 20551 (or charge by facsimile at 202-728-5886). The *Manual* is also available on the Board's public web site at www.federalreserve.gov/boarddocs/supmanual/.

Publication of the June 2004 Update to the *Bank Holding Company Supervision Manual*

The June 2004 update to the *Bank Holding Company Supervision Manual,* Supplement No. 26, has been published and is now available. The *Manual* comprises the Federal Reserve System's regulatory, supervisory, and inspection guidance for bank holding companies (BHCs). The new supplement includes supervisory and BHC inspection guidance on the following subjects:

1. *Filing a Required Change in Control Notice*. The Control and Ownership (Change in Control) section is revised to emphasize that any person (acting directly or indirectly) seeking to acquire control of a state member bank (SMB) or BHC should understand the requirements for filing a notice under the Change in Bank Control Act. The complexity of an ownership position sometimes does not lend itself to easy interpretation of the requirements to file a notice. When it is unclear whether a notice is required, the potential filer (or filers) or the affected SMB or BHC is encouraged to contact staff at a Federal Reserve Bank or the Board for guidance.

Prior notice is required by any person (defined in the section) that seeks to acquire control of an SMB or BHC.

Control of a banking organization occurs whenever a person acquires ownership, control, or the power to vote 25 percent or more of any class of voting securities of the institution. Section 225.41 of Regulation Y (12 CFR 225.41), details the specific types of transactions that require prior notice under the Change in Bank Control Act. Certain other ''rebuttable'' presumptions of control are outlined in section 225.41, which may also require the filing of a notice, including (under certain circumstances) a proposed acquisition that would result in the person owning or controlling the power to vote 10 percent or more of any class of voting securities. See SR letter 03-19.

2. *Joint Rules on the Authority to take Disciplinary Actions against Independent Accountants and Accounting Firms that Perform Audit and Attestation Services*. The federal banking agencies (the agencies) jointly issued rules, as implemented by 12 CFR 363, that govern the agencies' authority to take disciplinary actions against independent accountants and accounting firms that perform audit and attestation services that are required by section 36 of the Federal Deposit Insurance Act. See the Board's August 8, 2003, press release.

Attestation services address management's assertions concerning internal controls over financial reporting by an independent public accountant. A federally insured depository institution must include the accountant's audit and attestation reports in its annual report. The rules established, effective October 1, 2003, the practices and procedures under which the agencies can, for good cause, remove, suspend, or bar an accountant or firm from performing audit and attestation services for federally insured depository institutions that have total assets of $500 million or more.

3. *Enhanced Framework for the Supervision of Consumer Compliance Risk*. The section on the risk-focused supervisory framework for large complex banking organizations (LCBOs) has been revised to incorporate this new guidance that was developed by the Board's Division of Banking Supervision and Regulation and its Division of Consumer and Community Affairs. The guidance applies to LCBOs and large banking organizations (LBOs) that are subject to the Federal Reserve System's continuous supervision program. Under this guidance, consumer compliance examiners, working in conjunction with the safety and soundness examiners, are to incorporate the banking organization's consumer compliance risk assessment into its overall risk assessment and planned supervisory activities for LCBOs and LBOs. See SR letter 03-22.

4. *Interagency Policy on Banks and Thrift Institutions Providing Financial Support to Funds Advised by the Banking Organization or its Affiliates*. The January 5, 2004, interagency policy alerts banking organizations, including their boards of directors and senior management, of the safety-and-soundness implications of, and the legal impediments to, a bank providing financial support to investment funds advised by the bank, its subsidiaries, or its affiliates (that is, an affiliated investment fund).

The interagency policy emphasizes three core principles: a bank should not (1) inappropriately place its resources and reputation at risk for the benefit of an affiliated investment fund's investors and creditors; (2) violate the limits and requirements contained in the Federal Reserve Act's sections 23A and 23B, Regulation W, other applicable legal requirements, or in any special supervisory condition imposed by the agencies; or (3) create an expectation that the bank will support the advised fund (or funds).

In addition, bank-affiliated investment advisers are encouraged to establish alternative sources of financial support to avoid seeking support from affiliated banks. A bank's investment advisory services can pose material risks to the bank's liquidity, earnings, capital, and reputation and can harm investors, if the risks are not effectively controlled. Bank management is expected to notify and consult with its appropriate federal banking agency before (or immediately after, in the event of an emergency) providing material financial support to an affiliated investment fund. The inspection objectives and inspection procedures have been developed to focus on a BHC's oversight responsibilities for its bank and nonbank subsidiaries that advise investment funds. See SR letter 04-1.

5. *Interagency Statement on Independent Appraisal and Evaluation Functions*. The section on real estate appraisals and evaluations has been updated to incorporate this October 27, 2003, interagency statement. The statement emphasizes that a banking institution's board of directors is responsible for reviewing and adopting policies and procedures that establish and maintain an effective, independent real estate appraisal and evaluation program for all of its lending functions. Concerns about the independence of appraisals and evaluations arise from the risk that improperly prepared appraisals may undermine the integrity of credit-underwriting processes. See SR letter 03-18.

6. *Nonbanking Activities*. The sections on engaging in *EDP Servicing Company Activities* and activities involving *Electronic Benefit Transfer, Stored-Value Card, and Electronic Data Interchange Service* have been revised. The changes incorporate the current revenue limit of 49 percent (previously 30 percent) that the Board approved on November 26, 2003 (effective January 8, 2004). These services may be provided to others (outside third parties) if the total annual revenues derived from those activities involving data processing, data storage, and data transmission services (that are not financial, banking, or economic related) do not exceed the revised limit. BHCs may request permission to administer the 49 percent revenue test on a business-line or multiple-entity basis. See section 225.28(b)(14) of Regulation Y (12 CFR 225.28(b)(14).

A more detailed summary of changes is included with the update package. The *Manual* and updates, including pricing information, are available from Publications Fulfillment, Mail Stop 127, Board of Governors of the Federal Reserve System, Washington, DC 20551 (or charge by facsimile: 202-728-5886). The *Manual* is also available on the Board's public web site at www.federalreserve.gov/boarddocs/supmanual/.

Support of Plan to Develop New Central Banking Publication

The Federal Reserve Board on July 26, 2004, announced plans to support the development of a new publication focused on central bank theory and practice and issued a call for research papers. The International Journal of Central Banking (IJCB) will be a joint project of the Bank for International Settlements (BIS), the European Central Bank, and each of the Group of Ten (G-10) central banks, with participation expected from other central banks. The G-10 central banks are the Bank of Canada, the Bank of England, the Bank of France, the Bank of Italy, the Bank of Japan, the Deutsche Bundesbank, the Federal Reserve Board, the National Bank of Belgium, the Netherlands Bank, the Sveriges Riksbank, and the Swiss National Bank.

The IJCB will publish refereed articles of high analytical quality for a professional audience. The journal will feature policy-relevant articles on any aspect of the theory and practice of central banking, with special emphasis on research bearing on monetary and financial stability. The objectives of the IJCB are to widely disseminate the best policy-relevant and applied research on central banking and to promote communication among researchers both inside and outside of central banks. Federal Reserve Board Governor Ben S. Bernanke will serve as the initial managing editor, and will work with designees from the sponsoring institutions to develop the journal. Governor Donald L. Kohn has agreed to serve as the Board's representative to the journal's governing committee.

European Central Bank economist Dr. Frank Smets and Bank of Japan policy board member Dr. Kazuo Ueda will serve as IJCB co-editors. The journal board will appoint additional co-editors as well as a small group of associate editors to help coordinate solicitation and review of articles.

The BIS will host the journal's web site, which will be accessible to readers free of charge. Print copies will be available by subscription. The IJCB sponsors held their initial meeting in July and have a goal of publishing the first quarterly issue in early 2005.

Release of Minutes to Discount Rate Meetings

The Federal Reserve Board on May 13, 2004, released the minutes of its discount rate meetings from February 9, 2004, through March 15, 2004.

On July 8, 2004, the Federal Reserve Board released the minutes of its discount rate meetings from March 29, 2004, through May 3, 2004.

Announcement of Meeting of the Consumer Advisory Council

The Board of Governors of the Federal Reserve System on June 1, 2004, announced that the Consumer Advisory Council would hold its next meeting on Thursday, June 24, 2004. The meeting took place in Dining Room E, Terrace level, in the Board's Martin Building. The session began at 9 a.m. EDT and was open to the public.

The Council's function is to advise the Board on the exercise of its responsibilities under various consumer financial services laws and on other matters on which the Board seeks its advice. Time permitting, the Council planned to discuss the following topics:

- courtesy overdraft protection
- foreign bank remittances and access to financial services by new immigrants
- economic growth and the regulatory paperwork reduction act of 1996
- proposed rules to the Community Reinvestment Act

Reports by committees and other matters initiated by the Council members were also discussed. The Board invited comments from the public.

Board Seeks Nominations for Appointments to Consumer Advisory Council

The Federal Reserve Board announced on June 17, 2004, that it is seeking nominations for appointments to its Consumer Advisory Council. Eleven new members will be appointed to serve three-year terms beginning in January 2005.

The Council advises the Board on the exercise of its responsibilities under various consumer financial services laws and on other matters on which the Board seeks advice. The group meets in Washington, D.C., three times a year.

Nominations should include a résumé and the following information about nominees:

- complete name, title, address, telephone, e-mail address, and fax numbers;
- organization's name, brief description of organization, address, telephone, and fax numbers;

- past and present positions;
- knowledge, interests, or experience related to community reinvestment, consumer protection regulations, consumer credit, or other consumer financial services; and
- positions held in community and banking associations, councils, and boards.

Nominations should also include the complete name, organization name, title, address, telephone, e-mail address, and fax numbers for the nominator.

Letters of nomination with complete information, including a résumé for each nominee, were to be received by August 27, 2004, and nominations received after that date may not be considered.

Board Closed for Day of Mourning

The Board of Governors of the Federal Reserve System in Washington, D.C., announced on June 7, 2004, that it would be closed on Friday, June 11, 2004, in observance of the national day of mourning for former President Ronald Reagan.

The twelve regional Reserve Banks remained open and operating during normal business hours and provided all financial services as usual.

Enforcement Actions

The Federal Reserve Board on May 10, 2004, announced the issuance of an order of assessment of a civil money penalty in the amount of $100 million against UBS, AG, Zurich, Switzerland, a foreign bank.

UBS, without admitting to any allegations, consented to the issuance of the order in connection with U.S. dollar banknote transactions with counterparties in jurisdictions subject to sanctions under U.S. law, specifically Cuba, Libya, Iran, and Yugoslavia.

The transactions were conducted through UBS's Extended Custodial Inventory (ECI) facility in Zurich, Switzerland, which was operated pursuant to a contract with the Federal Reserve Bank of New York. The Reserve Bank determined that certain former officers and employees of UBS engaged in intentional acts aimed at concealing the transactions and terminated the contract in October 2003.

ECIs are overseas cash depots, operated by banks on behalf of the Federal Reserve, to facilitate distribution and repatriation of U.S. currency.

The Board acknowledged the cooperation of the U.S. Department of the Treasury and its Office of Foreign Assets Control in the preparation of this order. The order is being issued in coordination with a separate action being taken by the Swiss Federal Banking Commission.

The Federal Reserve Board on June 17, 2004, announced the issuance of a final decision and order of prohibition against Stephanie Edmond, a former employee of First Tennessee Bank, N.A., Memphis, Tennessee, as well as Bank of America, N.A., Charlotte, North Carolina. The order, the result of an action brought by the Office of the Comptroller of the Currency, prohibits Ms. Edmond from participating in the conduct of the affairs of any financial institution or holding company.

Cease and Desist Orders

The Federal Reserve Board on May 10, 2004, announced the issuance of a cease and desist order against CAB Holding, LLC, Wilmington, Delaware, and Paul Shi H. Huang, the sole shareholder of CAB Holding, LLC.

The order addresses the violation of certain conditions imposed in writing on CAB Holding and Mr. Huang in connection with the acquisition of The Chinese American Bank, New York, New York.

The Federal Reserve Board on May 14, 2004, announced the issuance of a consent order to cease and desist against Riggs National Corporation, Washington, D.C., a bank holding company, and Riggs International Banking Corporation, Miami, Florida, an Edge corporation.

Riggs National Corporation and Riggs International Banking Corporation, without admitting to any allegations, consented to the issuance of the order in connection with deficiencies relating to the lack of oversight, internal controls, and procedures to ensure compliance with the Bank Secrecy Act.

In separate, coordinated actions, the Office of the Comptroller of the Currency and the Financial Crimes Enforcement Network announced the issuance of a consent order and the assessment of a civil money penalty against Riggs Bank, N.A., a subsidiary of Riggs National Corporation and the parent of Riggs International Banking Corporation. The order and penalty relate to violations of the Bank Secrecy Act.

The Federal Reserve Board on May 27, 2004, announced the issuance of a consent order to cease and desist and order of assessment of civil money

penalty against Citigroup Inc., New York, New York, a bank holding company, and CitiFinancial Credit Company, Baltimore, Maryland, a nonbank subsidiary of Citigroup.

The order assesses a civil money penalty against CitiFinancial and requires CitiFinancial to pay restitution to certain subprime personal and home mortgage borrowers. The civil money penalty is $70 million, subject to a partial credit for restitution. The order also requires Citigroup and CitiFinancial to take steps to maintain and enhance compliance with consumer protection laws.

Citigroup and CitiFinancial, without admitting any allegations, consented to the issuance of the order in connection with CitiFinancial's lending activities and its conduct during an examination by the Federal Reserve Bank of New York.

Written Agreements

The Federal Reserve Board on April 30, 2004, announced the execution of a written agreement by and among Cache Valley Banking Company, Logan, Utah; the Cache Valley Bank, Logan, Utah; the Utah State Department of Financial Institutions, Salt Lake City, Utah; and the Federal Reserve Bank of San Francisco.

The Federal Reserve Board on May 14, 2004, announced the execution of a written agreement by and among Putnam-Greene Financial Corporation, Eatonton, Georgia; The Citizens Bank of Cochran, Cochran, Georgia; the Banking Commissioner of the State of Georgia, Atlanta, Georgia; and the Federal Reserve Bank of Atlanta.

The Federal Reserve Board on June 1, 2004, announced the execution of a written agreement by and between CIB Marine Bancshares, Inc., Pewaukee, Wisconsin, and the Federal Reserve Bank of Chicago.

The Federal Reserve Board on June 3, 2004, announced the execution of a written agreement by and among Utah Bancshares, Ephraim, Utah; the Bank of Ephraim, Ephraim, Utah; the Utah State Department of Financial Institutions, Salt Lake City, Utah; and the Federal Reserve Bank of San Francisco.

The Federal Reserve Board on July 2, 2004, announced the execution of a written agreement by and between Kenco Bancshares, Inc., Jayton, Texas, and the Federal Reserve Bank of Dallas.

The written agreement addresses, among other things, a violation of a written condition imposed by the Federal Reserve in connection with an application involving Kenco Bancshares, Inc.

The Federal Reserve Board on July 12, 2004, announced the execution of a written agreement by and among the First Midwest Bank, Itasca, Illinois; the Illinois Department of Financial and Professional Regulation; and the Federal Reserve Bank of Chicago.

The Federal Reserve Board, the New York State Banking Department, and the Illinois Department of Financial and Professional Regulation on July 26, 2004, announced the execution of a written agreement by and among ABN AMRO Bank, N.V., Amsterdam, The Netherlands; ABN AMRO's branch in New York, New York; the Federal Reserve Bank of Chicago; the Federal Reserve Bank of New York; the New York State Banking Department; and the Illinois Department of Financial and Professional Regulation.

The written agreement addresses Bank Secrecy Act and anti-money laundering compliance at ABN AMRO's New York branch, including policies and practices relating to the provision of correspondent banking services.

Termination of Enforcement Actions

The Federal Reserve Board on April 30, 2004, announced the termination of the enforcement actions listed below. The Federal Reserve's enforcement action web site, www.federalreserve.gov/boarddocs/enforcement, reports the terminations as they occur.

- Korea Exchange Bank, Seoul, Korea, and its affiliated branches and agency offices
  Order of consent dated May 16, 2000
  Terminated April 22, 2004
- First American Bank, Elk Grove Village, Illinois
  Written agreement dated September 26, 2003
  Terminated February 19, 2004
- First State Bank of West Manchester, West Manchester, Ohio
  Written agreement dated April 25, 2003
  Terminated February 18, 2004
- Madison Bank, Blue Bell, Pennsylvania
  Written agreement dated June 20, 2002
  Terminated February 9, 2004

- Midstate Bancorp, Inc., Hinton, Oklahoma
  Written agreement dated March 1, 2003
  Terminated December 2, 2003
- Bank of Ephraim, Ephraim, Utah
  Written agreement dated October 26, 2001
  Terminated November 11, 2003
- MSB Shares, Inc., and MidSouth Bank, Jonesboro, Arkansas
  Written agreement dated February 5, 2002
  Terminated October 23, 2003
- Texas Coastal Bank, Pasadena, Texas
  Cease and desist order dated May 16, 1995
  Terminated October 22, 2003
- O.A.K. Financial Corporation and Byron Center State Bank, Byron Center, Michigan
  Written agreement dated October 4, 2002
  Terminated October 16, 2003

On June 1, 2004, the Federal Reserve Board announced the termination of the enforcement action listed below.

- The Marathon Bank, Winchester, Virginia
  Written agreement dated May 20, 2003
  Terminated April 30, 2004

CHANGES IN BOARD STAFF

General Counsel Virgil Mattingly retired on June 30, 2004, after thirty years of service with the Federal Reserve Board, including twenty-five years as a member of the Board's official staff.

Stephen C. Schemering, Senior Adviser and former Deputy Director in the Division of Banking Supervision and Regulation, retired from the Board on June 4, 2004, after nearly thirty years of service.

Steve Siciliano, Assistant General Counsel in the Legal Division, retired from the Board on June 30, 2004, after thirty-one years of service.

The Board of Governors on June 29, 2004, announced the selection of Scott G. Alvarez as its general counsel, effective July 1, 2004.

Mr. Alvarez succeeds Virgil Mattingly, who announced in April his intention to retire.

The Board of Governors approved on July 22, 2004, the following officer promotions and appointments in the Division of Research and Statistics.

- David L. Reifschneider, Assistant Director, promoted to deputy associate director
- William L. Wascher III, Assistant Director, promoted to deputy associate director
- J. Nellie Liang, Assistant Director and Chief, promoted to assistant director with line responsibility for the Capital Markets and Flow of Funds Sections
- S. Wayne Passmore, Assistant Director and Chief, promoted to assistant director with line responsibility for the Household and Real Estate Finance Section
- Douglas Elmendorf appointed assistant director and chief of the Macroeconomic Analysis Section
- Diana Hancock appointed assistant director and chief of the Monetary and Financial Studies Section
- Daniel Sichel appointed assistant director with line responsibility for the Fiscal Analysis Section

David L. Reifschneider joined the Board in 1982 as an economist in the National Income Section. He was promoted to senior economist in 1989, and was named chief of the Macroeconomics and Quantitative Studies Section in 1996. He was promoted to the official staff as assistant director in 2000. Mr. Reifschneider received his Ph.D. from the University of Wisconsin.

William L. Wascher III began his Board career in 1983 as an economist in the Wages, Prices, and Productivity Section. He was promoted to senior economist in 1989. Mr. Wascher served as senior economist at the Council of Economic Advisers in 1989 and 1990. He has also been a visiting economist at the Bank for International Settlements. In 1998, he was promoted to chief of the Wages, Prices, and Productivity Section, and in 2000, he was made chief of the Macroeconomic Analysis Section. Mr. Wascher was appointed to the official staff as assistant director in 2001. He received his Ph.D. in economics from the University of Pennsylvania.

J. Nellie Liang joined the Division of Research and Statistics in 1986 as an economist in the Financial Structure Section. In 1994, she moved to the Capital Markets Section and was named chief of the section in 1997. She was appointed to the official staff in 2001 as assistant director and chief. Ms. Liang received her Ph.D. in economics from the University of Maryland.

S. Wayne Passmore began his career at the Federal Reserve Bank of New York in 1984. He moved briefly to the Board as a staff economist in 1987, before taking a position as assistant vice president at the Federal Home Loan Bank in San Francisco. Mr. Passmore returned to the Board in 1990 as a senior economist in the Capital Markets Section. He was promoted to chief of the Financial Institutions Section in 1997, a section that was the predecessor of

the current Household and Real Estate Finance Section. He was promoted to the official staff in 2000 as assistant director and chief. He received his doctoral degree from the University of Michigan.

Douglas Elmendorf joined the Board in 1995 as an economist in the Division of Monetary Affairs. In 1998, he took a leave of absence to serve on the staff of the Council of Economic Advisers. In 1999, he joined the Treasury Department as a deputy assistant secretary. Mr. Elmendorf rejoined the Board in 2001 as a senior economist in the Macroeconomic Analysis Section in the Division of Research and Statistics. Since 2002, he has served as chief of that section. He received his Ph.D. in economics from Harvard University in 1989.

Diana Hancock joined the Board in 1991 as an economist in the Division of Monetary Affairs, and then served in the Division of Reserve Bank Operations and Payment Systems, where she was promoted to senior economist in 1996. She joined the Monetary and Financial Studies Section in the Division of Research and Statistics in 1997, and was named chief of the section in 1999. Ms. Hancock received her Ph.D. in economics from the University of British Columbia.

Daniel Sichel joined the Board in 1988 as an economist in the Economic Activity Section in the Division of Research and Statistics. He left the Board in 1993 to become a research associate at the Brookings Institution. In 1995, Mr. Sichel joined the Treasury Department as deputy assistant secretary for macroeconomic analysis. He re-joined the Board in 1996 as a senior economist in the Economic Activity Section. Mr. Sichel worked in the Industrial Output Section before joining the Capital Markets Section. He received his Ph.D. in economics from Princeton University. □